

# China's Durable Inequality: Legacies of Revolution and Pitfalls of Reform

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Since the early 1980s, China has been hailed as the poster child of post-socialist transition, shifting its revolutionary course via a reform that has generated the world's most dynamic growth in GNP and trade over a quarter of a century and elevated it to the forefront of nations attracting foreign investment. Often eclipsed in this glowing picture of reform are enduring, indeed exacerbated, structures of inequality and the vibrant forms of popular resistance these have spawned. So too are the inequalities of the revolutionary era, including both persisting historical legacies and new forms of inequality. This article seeks to provide a framework both for assessing structures of Chinese inequality in successive epochs of revolution and reform and for gauging the changing relationship between social movements and structures of inequality. Three key questions drive the analysis: What are the legacies of the Chinese Revolution for the pursuit of social equality? How has reform restructured patterns of inequality? What is the relationship between the social upheavals that took place during both periods and changing patterns of inequality?

In this article, we argue that persistent inequality, defined broadly in terms of income, wealth, life chances and basic needs entitlements, has resulted from three durable hierarchies—class, citizenship and location—whose mechanisms and intersection have been in flux across time and space in the past half-century. For instance, we trace the transformation of a politically defined class structure during the revolutionary era to one

that is driven by both market forces and the imbalance of political power, noting all along the persistent domination of the bureaucratic class over ordinary citizens within rural and urban societies. Moreover, we find a hierarchy of unequal citizenship evolving from the revolutionary to the reform eras, in the sense that the state and its redistributive policies have always conferred different entitlements and rights to categories of Chinese citizens. Rural and urban residents have been treated differently particularly since 1960, even as the bundles of rights and entitlements concerned have changed in content over time, and have always been unevenly practiced across localities. Besides charting these structures of inequality in flux, we maintain that the transition from the era of revolutionary war and social transformation to one of global market integration has had the paradoxical effect of localizing and fragmenting class conflicts and protests which in the previous era repeatedly took the form of large scale, party-initiated mass mobilizations on a national scale. The rhetoric of class and exploitation has given way to a liberal discourse emphasizing rights, legality, citizenship and stratification that seeks to mask exacerbated class and spatial inequality. But what has been the effect on patterns of social inequality and their perception?

## I. Revolutionizing Class, Citizenship and Spatial Hierarchies, 1945-1970



The life of the peasants is good after land reform, 1953 poster

### *Land Reform and Collectivization*

Land reform and subsequent market controls eliminated the major polarized rural social classes rooted in differential land ownership and wealth, producing a striking homogenization of intra-village incomes and opportunities while enshrining an important new social divide between cadres and villagers. In the years 1946-53, land confiscation and redistribution both partially satisfied the land hunger of the landless and land poor and toppled the rural elite, while establishing a class struggle mode of mobilization politics that would be repeatedly invoked in subsequent campaigns throughout the revolutionary era. The results included roughly equal per capita land ownership within each village community and the rise to power of a local party leadership that emerged at the head of land reform and was committed to maintaining its results (Friedman, Pickowicz and Selden 1991).

Collectivization, together with the constriction of the market, transformed Chinese agrarian institutions and social processes in ways that land reform, which left intact a farming regime centered on the household, had not. The basic units of collective agriculture were teams of 20-30 households dominated by local cadres who directly controlled labor, the transfer of grain to the state, income distribution, and major parameters of social, cultural and political life. Collectivization expanded the reach of the state, making possible extraction

of a larger share of the agricultural surplus, substantial portions of which were transferred to industry and the cities through compulsory sales to the state at low fixed prices of collectively produced grain and cotton. For all its distinctive social and political dynamics, China nevertheless reproduced one of the standard trajectories of industrialization familiar from the dawn of the industrial revolution: the transfer of the surplus from agriculture and the countryside to industry and the cities. And with it, one of the central fault lines of social conflict.

The revolutionary processes of land reform and collectivization homogenized the complex social structure of pre-revolutionary rural China. On the one hand, property-based income inequality was eliminated, giving rise to a highly egalitarian intra-village income distribution. On the other, a two-class structure of collectivized villagers and cadres emerged with the latter exercising a monopoly on political power. In the formal structure of the revolutionary period, "class" (chengfen) was fixed by birth, on the basis of purported position in the pre-land reform social landscape. The result was to create a frozen set of categories in which landlords and rich peasants, long since stripped of the property and wealth that once defined their class position, constituted a new social stratum at the lowest echelons of the collective order. In this transvaluation of values, these class enemies and others stigmatized as "bad elements" would be repeatedly scapegoated and attacked in political campaigns. This not only reified party leadership and deprived those defined as class enemies of citizenship within the village, but also concealed existing polarities of power by conveying a false sense of empowerment among those who joined in the degradation rituals.

### *Nationalization of Industry and Urban Class Structure*

The party spearheaded a comparable drive to transform the urban class structure through the expropriation of merchants and capitalists

and the socialization of industry in the form of state and collective ownership. Where the rural class struggle was enacted in the midst of civil war, and helped to shape its outcome, nationalization of industry took place for the most part after the party's power was secure, and involved far less mass mobilization or violent confrontation. In the wake of socialization, permanent workers in state owned enterprises (SOEs) gained lifetime employment and a welfare package that included health care, housing, and generous retirement benefits. Significant cleavages of income and status remained within worker ranks. Only workers in core (mainly large) SOEs obtained the "big" welfare package that provided free health care for family members and many amenities, benefits unavailable to workers in smaller state enterprises and collective enterprises. Nevertheless, nationalization of industry, like rural collectivization, produced substantial homogeneity of income and consumption in China's cities. At the same time, by the early 1950s a growing urban-rural income and benefits gap became discernible.

Beginning in 1955, but particularly after 1960, villagers were barred from finding work in cities, and even the few who were able to become temporary and contract workers were largely excluded from urban welfare benefits (Cheng and Selden 1994; Walder 1986). Overall, the revolution conferred on urban workers as a group significant welfare and status gains in contrast with their rural counterparts. This was a product both of the party's profiling of social classes in the "worker's state" and of the material and security benefits that steadily widened the urban-rural and state-collective gap.

The deepest social divide in the cities was not within the ranks of workers but, as in the countryside, it was between workers and cadres. Disparity in income and benefits such as housing allocation and medical care between cadres and workers remained small by international standards (Zhou 2004).

Nevertheless, cadres monopolized political power, and they had access to scarce resources such as special shops, and services available only to the most privileged workers.

In sum, the city, like the countryside, experienced an homogenization of diverse classes into a two-class system of working people ("the masses") and officials ("the cadres"), while eradicating the extremes of wealth and status characteristic of the pre-revolutionary order through provision of large numbers of secure industrial jobs. Villagers and workers were beneficiaries of revolutionary transformation, the former through equalization of land ownership and income, the latter through the provision of secure employment with generous welfare provisions. Class differences in revolutionary China hinged neither on differential ownership of the means of production nor on substantial difference in wealth, but on differential access to power through the party state, which controlled both collectives and SOEs and through them the labor and remuneration of working people.

#### *Spatial and Citizenship Hierarchies*

In 1960, when the Great Leap Forward failed, propelling China into famine, the party tightened the population registration (*hukou*) system that had begun to take shape in 1955, erecting a great wall between city and countryside, locking rural people into their villages and cutting off most remaining intra-rural and urban-rural exchange. The state also continued to siphon off the rural surplus to urban industry, primarily via compulsory grain sales at state-imposed low prices and secondarily through taxation (Cheng and Selden 1994; Lin, Tao and Lin 2006: 6-8). A two-tier institutional structure divided city and countryside, setting the stage for widening income and social inequality between them. To be sure, urban wages were set low, but the combination of cash incomes (rural people mainly earned income in kind), lifetime employment, pensions and health care (provided by the state for urban workers and employees only), the subsidized ration system,



and superior schools, all worked to the advantage of urban workers and employees. Among the latter groups, those in state industries enjoyed more entitlements than those in urban collective enterprises. Stated differently, the combination of the transfer of the rural surplus to industry and the cities, and the state's subsidies for various categories of workers were the bases for a widening locality-based structure of inequality, with the rural-urban divide as its most salient but by no means singular expression.

The significance of the urban-rural divide is driven home with particular clarity by two sets of facts. First, nearly all of the millions who starved to death during the Great Leap Forward famine—the most credible estimates ranging from 10 to more than 20 million extra deaths—were rural people. Viewing city and countryside as a whole, urban per capita grain consumption dipped slightly, from 201 kg per person in 1959 to an average of 187 kg in the years 1960-63, before returning to previous levels. By contrast, rural grain consumption plummeted from 201 kg in 1958 to just 168 kg in the years 1960-63 and did not return to 1958 levels until 1979 (Taylor and Hardee 1986). Second, in 1961 the state “sent down” (*xiaxiang*) 20 million urban workers, thereby shifting its burden of feeding and providing work for them in famine times to a countryside that already had a large labor surplus and confronted acute hunger. Promised restitution of their urban jobs once the famine ended, most would live out their lives in the villages to which they were sent. This first wave of “sent down” urban denizens would be followed by the dispatch to rural areas of close to twenty million urban junior high and high school graduates in the years between 1964 and 1976, ostensibly to bridge the urban-rural gap through their contributions as farmers to rural development, but in fact, relieving the state of the obligation to provide jobs and benefits for them (Friedman, Pickowicz and Selden 2005). To be sent down was to lose the largesse of the state.

Revolution in the form of land reform, collectivization, nationalization of industry and restriction of the scope of markets, had brought the homogenization of both rural and urban social classes, reduction of wealth disparity and alleviation of rural and urban poverty. It had not, however, eliminated class, citizenship or spatial divisions *tout court*. Indeed, notably from 1960, urban-rural divisions sharpened. The state policed social divisions, manifested as differential entitlements, rights and income, particularly those between collectivized villagers consigned to agriculture on the one hand, and urban workers and employees in state and collective enterprises on the other.

## II. Conflict and Popular Protest in the Era of Revolution



Develop agriculture and industry . . . Great Leap Forward poster

The party led the way in transforming class and spatial relationships in the course of the civil war and early years of the People's Republic. In the late '40s and early '50s, it effectively

mobilized poorer villagers and urban industrial workers in support of the revolutionary goals of land reform and nationalization of industry. These conflicts resulted in the transformation of ownership and class relations, giving rise to new state-society and city-countryside relationships. Because these movements have been well documented elsewhere (Hinton 1966; Schurmann 1968; Selden 1979; Friedman et al. 2005), we focus here on those that subsequently divided or directly or indirectly challenged party leadership.

In the wake of collectivization and state restriction of markets, and above all with the failure of the Great Leap Forward and the subsequent famine, some villagers sought to expand the scope of the household sector and the market. Many fled extreme manifestations of collectivism and tight restrictions on mobility imposed through the hukou system, and resorted to everyday forms of resistance (Perry 1986: 426; Friedman et al. 2005). Risking public criticism, humiliation, and jailing, villagers withheld labor in collective production in favor of household plots or sideline activities and marketing, concealed production, engaged in illicit activities such as private cutting and sale of timber, or participated in theft, vandalism and physical assault on rural cadres, (Friedman et al. 2005; Bianco 2003; Zweig 1989). Official corruption, which soared following the Great Leap famine, may be considered another form of anti-systemic activity in the sense that it undermined state authority. Such actions rarely took the form of direct challenges to the state, yet their cumulative effect was to undermine the legitimacy and efficacy of rural collectives and communes at a time when reckless state policies had already undermined their credibility.

In the cities in the 1950s following the nationalization of industry and commerce, more than 10,000 strikes erupted across the country, by far the most important taking place in Shanghai, China's industrial, financial and working class capital and the historic center of

the working class movement. In Shanghai in 1957, strikes at 587 enterprises involved 30,000 workers (Perry 1994). Workers displaced or disadvantaged by nationalization were at the forefront of a strike wave decrying bureaucratism of cadres in the form of a vast increase in managerial personnel following nationalization, and demanding the recovery of wages and benefits cut during nationalization. The sternest test of revolutionary leadership would come during the Cultural Revolution. The nationwide social movements that crescendoed and exploded violently during the Cultural Revolution originated, and may have had their most far-reaching impact, in the cities.



Cultural Revolution mass meeting struggles against "capitalist roaders"

While driven in part by national agendas choreographed by Mao and other party and military leaders, and by political struggles at the center, in both city and countryside, rebellion, which had surfaced and been crushed most notably in the wake of the Great Leap famine, was also driven by popular grievances stemming from inequities and frustrations born of policies and priorities associated with the revolutionary regime. In the initial stage of the Cultural Revolution, protests in schools and in factories usually began as a top-down mobilization and counter-mobilization among students and permanent state workers with "good" class backgrounds and ties to the incumbent party leadership

hewing to loyalist positions while those with weaker ties to the party or with vulnerable class backgrounds gravitated to the rebel camp. Soon, however, students of compromised class backgrounds (landlords, capitalists) as well as disadvantaged workers (temporary and contract workers) attacked the incumbent leadership. Illustrative of a level of militancy distinctive of that era were the national and regional organizations of temporary and contract workers that emerged in 1966 to demand the rights, benefits and security of permanent workers only to be crushed after receiving brief encouragement from Jiang Qing, Mao's wife (Walder 1996; Perry and Li 1997). Perhaps no movement since land reform was so explicitly organized on principles that challenged class inequality and class privilege. In the countryside, behind the banners proclaiming class struggle often lurked long standing hostilities among families, villages and lineages over water rights, ancestral tombs, land or lumbering rights. Now cloaked in Maoist rhetoric, ancient and recent conflicts and inequalities could give rise to violence and vendettas within and between communities. Village officials who were victimized by previous political campaigns saw in the Cultural Revolution opportunities to take revenge and regain their power, while incumbent leaders sought to direct popular struggles against helpless bad class households while seeking local and higher allies in factional competition (Unger 2002; Friedman et al. 2005). In the end, the Cultural Revolution did little to address the fundamental inequities of power, opportunity and income in city and countryside or between city and countryside. Indeed, the outcomes solidified the power of the party and military elite while leaving intact structures of hierarchy and inequality. Nevertheless, the heavy price exacted by the Great Leap famine, and the violence, scapegoating and turmoil of the Cultural Revolution, led many within and outside the party, and particularly intellectuals, many of whom were among the victims of the Cultural

Revolution, to question key components of the revolutionary agenda.

Major social movements in the early stages of revolution, notably land reform, agricultural collectivization and nationalization of industry in the years 1946-56, directly targeted structures of inequality rooted in pre-Revolutionary society, and were associated with far-reaching institutional change. Subsequent movements, both those orchestrated by the state and those surfacing from below at times in conflict with state mobilization, addressed a broad range of grievances including ethnic and religious conflicts problems associated with the hukou system, market restrictions, and the sending of urban workers and students to the countryside with important implications for economic or class inequities. They failed, however, to produce institutional or structural changes on a scale comparable to those of the early years of the People's Republic.

### III. Reforming Inequality, 1970-2005



Important inequalities noted during the revolutionary epoch, such as those between workers and cadres and between city and countryside, were largely products of state mobilization carried out under conditions in which domestic markets and interface with the world economy were tightly controlled. By contrast, the reform period is notable for the growing salience of domestic and global capital in restructuring inequalities and for a shift in



the party's political agenda. The party, which previously championed mobilizational politics, since the 1970s has been bent on preserving its political monopoly through an emphasis on political stability, while prioritizing high-speed economic growth. This section examines the transformation of structures of inequality through articulation of intertwined Chinese and global socio-political and economic processes that both extend existing inequalities and give rise to new forms and patterns of inequality.

**From Growth with Equity to Growing Disparities.** By the early 1970s, it seemed clear to reform-oriented elements of the leadership that development of the national economy required reviving the rural economy and improving the standard of living for the 80% of the populace residing in the countryside, as well as boosting China's long stagnant exports. From 1970, simultaneous with the US-China opening, China's imports and exports began their spectacular growth, spurred in part by promotion of rural collective industry. By the early 1980s, the state had relaxed controls on the household sector, substantially boosted state purchasing prices for agricultural commodities, expanded the scope of rural markets, reduced taxes and compulsory grain and crop sales to the state, allowed private plots to expand from 5% to 15% of cultivated land, and increased incentives through new compensation systems (Unger 2002; Friedman et al. 2005). Villagers and local cadres both anticipated and seized the opportunity of this liberalization to press further and, eventually, joining hands with reformers in the ranks of state cadres and intellectuals, exercised pressures leading to commodification, decollectivization and the dismantling of the communes. The post-collective rural order pivoted on the combination of the household responsibility system in agriculture, that is, household farming based on contracts on land distributed equally to households on a per capita basis, and the expansion of rural industry and markets. Scores of millions of villagers, who had been

restricted to their communities since 1960, soon began to engage in intra-rural and rural-urban migration in search of work and income. The result was a rapid increase in agricultural output even as substantial labor moved into rural industry and trade. Grain output increased by one third, oil crops more than doubled and cotton nearly tripled in just six years from 1978-84 (Kelliher 1992: 139). Rural income increased 1.5 fold in the same six-year period, with a net growth of 16% per year, the product not only of higher returns on booming agricultural production, but also the result of surging rural markets and local industry in coastal areas (Sheng 2001; 7-11). Just as the countryside had taken the lead in social transformation in the period of revolution centered on land reform, the most profound institutional and structural changes occurred there in the early years of reform.

**Industrializing Rural China.** From the early 1970s, as the state relaxed prohibitions on rural industry and commerce, growing numbers of villagers turned to non-agricultural activities, initially primarily in local village enterprises, but shortly many in group and private enterprises, resulting in expansion of waged employment in rural and urban industries. By the 1980s this sector became a magnet for foreign investors. One important source of wage income since the 1970s has been rural industrialization, centered in coastal areas of Guangdong, Fujian, Jiangsu and Shandong. These areas have become more suburban than rural with the surge of migration, industrialization and exports. The coastal areas enjoy advantages of easy access to transportation (water and rail), foreign markets and capital of overseas Chinese, many of whom not only invested in industries but also funded schools and cultural activities in native areas. Producing labor-intensive industrial and craft products and processing agricultural crops, township and village enterprises (TVEs) became the engine of export-led growth for the Chinese economy from the 1970s to the mid-1990s. In 1993, for example, TVEs

accounted for 32.7% of China's foreign exchange earnings and 41.6% of total export earnings (Zweig 2002: 121).

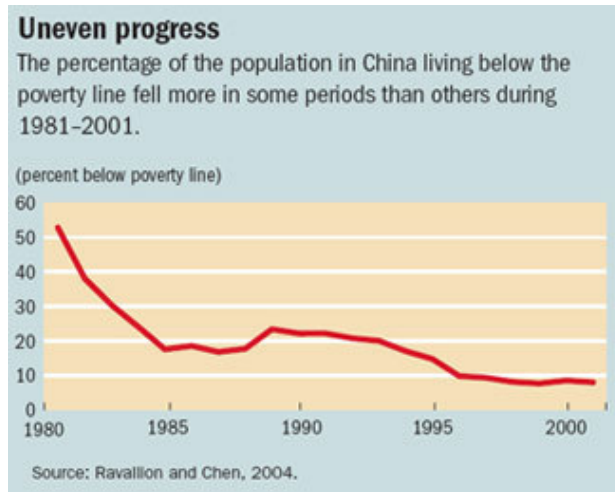
The scale of foreign direct investment, sometimes involving TVEs and joint ventures with village or state interests, was so significant that by the mid-1990s, a number of rural coastal areas were more internationalized and dynamic than many cities whose industries were still dominated by SOEs. By 1998, 90% of TVE exports were from coastal regions (Ibid.: 128). The TVEs, sometimes in alliance with the local state, illustrate the emerging bureaucratic-business elite wedding regulatory power with capital, including Chinese private capital and international capital. By the late 90s, local leaders had "privatized" between half a million and a million TVEs, turning these former collective enterprises into private, share holding companies frequently dominated by former managers and local cadres, and in some instances drawing on international, particularly overseas Chinese as well as Taiwanese and Korean, investments. The regulatory power retained by rural local officials in licensing, taxation and customs made them critical partners for international and domestic businesses (Oi 1998; Yang 1996, chapters 7, 8). The combination of these factors and labor migration from central and western provinces has produced rapid economic growth and rising per capita incomes in the rural and suburban areas of coastal provinces. It has also produced new stratification. In the period of dynamic TVEs, migrant workers were employed in low wage industries and agriculture, while villagers in localities with profitable township and village enterprises shared in the profits and enjoy rising incomes. With the privatization of TVEs, villagers in coastal areas find themselves in much the same position as migrant workers, forced to compete for low paying jobs.

**Predatory Local State and Taxation in the Agricultural Hinterland.** In contrast to the dynamic coastal areas, the agricultural heartland, the grain-producing central provinces and the mountainous areas of the far

West, have been slow to develop rural industry and commerce or to attract foreign or domestic investment. In many instances, problems associated with economic stagnation have been exacerbated by predatory local officials (Bernstein and Lu 2003; Friedman et al. 2005). In the predominantly agricultural central region, income registered negative growth rates between 1984 and 1990, just as economic and income growth in coastal areas exploded (Rozelle 1996). If uneven linkages to international trade and investment contribute to regional inequality, the government's regressive investment priorities and tax regime also result in sharpening class and spatial inequality.

In 1995, the poorest rural decile's share of net taxes was twelve times its share of income, while the richest decile had a high net positive resource transfer from state and collective (Khan and Riskin 1996: 34). Agricultural taxes and levies accounted for 8% of rural income in the central areas (but in some instances rising as high as 30% for poorer farmers), compared to 3.9% in more prosperous coastal provinces and 5.6% in the west in 1996 (Bernstein and Lu 2000: 750; Lin, Tao and Liu 2006: 4, 11-24.). The roots of this cruelly inequitable tax burden can be traced to two components of the central government's initial reform strategy: let the rich areas (the coast) prosper first, and fiscal decentralization. To create incentives for local governments and cadres to promote market reform, the center allows them to retain a share of revenues for local development after remitting taxes. But decentralization also implies local financing of public goods and local government payrolls. Particularly in poor non-industrialized localities, this has frequently taken the form of coerced illegal fundraising, fines and levies in part to support inadequately funded educational and welfare services but often to line the pockets of corrupt cadres.





#### Declining poverty rate, 1980–2004

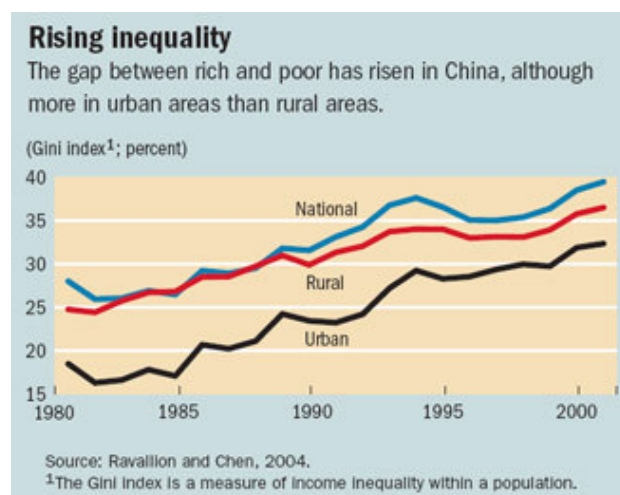
Fiscal decentralization has spawned growing income disparities between industrialized and more prosperous rural areas on the one hand, and poorer predominantly agricultural rural areas on the other. In interior regions, decentralization has weakened control by the center over local cadres who no longer fear anti-corruption campaigns. The lack of political accountability and lack of market opportunity in rural backwaters together aggravate the burden on villagers in inland areas, even as the central government has attempted to halt illegal levies and reduce agricultural taxes. By contrast, in enterprising coastal areas, rural industries draw on the entrepreneurship of local officials, forming “developmental communities” which rely on a formidable alliance of local officials, foreign and domestic capital (Zweig 2002, Friedman et al. 2005).

Villagers in predominantly agrarian central and western regions have faced staggering burdens as a result of imposition of arbitrary fees and levies in areas where the local state lacks the revenues that industry and foreign investment bring to the coastal areas. The central government in the years 2004–06 eliminated the state agricultural tax and transferred additional funds to compensate local areas for the lost revenues (Lin, Tao and Liu 2006: 20–26). It remains to be seen, however, whether this will prevent the exaction of heavy fees on villagers, particularly in poorer

localities.

**Rural-Urban Dualism.** The biggest gain for many villagers as a result of three decades of reform is arguably the expansion of their citizenship rights, especially civil and political rights, in the form of increased freedom to seek waged employment or engage in market activities in cities, suburban and rural areas, buying properties in some urban and suburban areas, and a greater degree of political participation through village elections. Again, we note that the expansion in civil and political rights has been spatially uneven and complicated by market forces. Social rights and entitlements have seen a secular decline in both cities and villages, as both the urban and rural welfare regimes have been seriously undermined by medical and pension reforms.

An estimated 120 million rural residents have taken advantage of a relaxation of the household registration system coupled with the voracious demand for cheap labor created by the flourishing of rural industry to seek employment beyond their local communities. By one informed calculation, the combination of rapid agricultural growth and rural industrialization reduced the urban-rural income disparity from 2.6 in 1978 to 1.8 in 1984. However, since that time, the advantage swung steadily toward the cities once again, reaching a historic high of 3.2 by 2005 (Khan and Riskin 2001). Likewise, with something approaching income stagnation in agriculture-dependent inland provinces in the second half of the nineties, disparities between coastal and inland regions have also grown. (Lin, Tao and Liu 2006: 3–4). While villagers won the right to labor migration, the potential of market forces to reduce the urban-rural income gap is still tethered by the official classification of citizens into categories of rural or urban residents, and maintenance of a hierarchy of urban places with Beijing and Shanghai at the apex and smaller cities at the base.



### Changing urban-rural income ratio, 1980-2004

The results include perpetuation of unequal entitlements and vulnerability of rural registrants to police harassment and extortion to prevent eviction from the cities. Rural residents who succeed in finding urban jobs are not entitled to government-run pension schemes or housing allowances available to urban residents. They may also experience difficulty in purchasing housing in an epoch in which virtually all housing has been privatized. While the situation is in flux, in many instances migrant workers do not have the right to send their children to urban public schools, and even private schools for migrant children frequently face official attack. To have lived and worked in cities for a decade or more is no guarantee of such basic rights of citizenship. Indeed, the consequences of the reform era include the fragmentation of citizenship rights (Solinger 1999; Wu 2006). The second-class status of migrants in the cities has led to an exploitative “bonded labor system” (Chan 2000), among whose features is the frequent non-payment of wages. In short, while significant numbers of rural workers have made income gains in coastal and urban industry, elements of the rural-urban dualistic social hierarchy persist and even grow. This dualism is one factor holding down wage levels and maintaining a subordinated labor force, factors that have facilitated a new round of accumulation now driven by domestic and global capital and by an

alliance of officials and private capital.

### Urban Reform

Since the early 90s, after a brief economic downturn that followed the bloody crackdown on the Tiananmen protests, the central leadership under Deng Xiaoping pushed for a new round of “reform and opening” that unleashed sweeping institutional changes on Chinese cities, transforming the position of the industrial working class in general, SOE and migrant workers in particular. Among the most important changes of the 1990s was the privatization by stages of SOEs.

**Privatization and Unemployment.** The decline of the core urban working class can be traced to the early 90s, when the Chinese state began cutting back on subsidies to loss-making state firms, followed by permission to lease and then sell off small SOEs through acquisitions and mergers. From 1995, after formally endorsing the policy of “grasping the big and letting go of the small” (that is allowing merger and acquisition of small and weak firms, while big firms in strategic sectors were reorganized), bankruptcy (averaging six thousand firms a year) and privatization brought about a rapid surge in unemployment, a phenomenon hitherto virtually unknown. The numbers of laid off workers in different types of unemployment, given euphemistic names like waiting for work, early retirement, and taking a long vacation, had quietly grown in the early 90s. It leaped from 3 million in 1993 to a cumulative total of 25 million by the end of 2001, with internal sources giving figures as high as 60 million (Solinger 2005).

Suddenly, the safety net associated with lifetime employment previously enjoyed by urban, particularly state-sector workers, was gone. Large numbers of laid off workers found themselves without retirement and welfare benefits, as in the US underclass today. This situation, which previously confronted only migrant workers, was extended to workers with urban residence, including many who had worked for decades in secure SOE jobs. For the first time since the early 1950s, urban workers

were forced to compete directly for low end jobs with the sea of rural migrants whose vulnerability made them eager to accept jobs on terms unthinkable to workers accustomed to the benefits and security of the socialist enterprise.

The effect of unemployment has been devastating for laid off workers, hitting middle-aged women workers particularly hard. Not only did workers experience the abrupt shattering of a compact with the state that had rested on the bedrock of lifetime employment, but unemployment has also frequently meant the permanent loss of welfare entitlements built up over a lifetime of labor (Solinger 2002). Even though the government has initiated a contribution-based new safety net, the system is ineffectively and unevenly implemented and many workers remain outside in the cold. The most vulnerable workers in old industrial regions are least likely to obtain benefits. By 2002, a new class of urban poor had emerged, estimated to be about 15-31 million, or 4-8% of the urban population (Tang 2003-4). But such figures barely begin to capture the impact of the pattern of layoffs, at a time of continued influx of rural migrants, for the entire urban population and urban life.



Images of urban-rural inequality

**Bureaucratic-Business Alliance.** Privatization of state owned enterprises has simultaneously produced both the urban poor and the new rich while transforming the character of the cadre elite. Taking advantage of their effective control over the assets of

SOEs and ambiguities in the reform measures, managers and local officials illicitly have transferred public property into their own hands on a massive scale (Qian 1996). A wide spectrum of tactics was used by managers and officials in the manufacturing, financial and public utilities sectors to create new companies by stripping off the most profitable segments of existing state firms. Often they created consortiums with non-state units to blur the ownership boundary of the new entity, operating covert twin businesses by stealing from the state company under their administration, or simply embezzling and misappropriating state funds (Ding 2000a). Alternatively, the approved policy of “corporatization”, i.e. transforming state ownership into a share- holding system, allows senior government officials directly to designate themselves as large shareholders. SOE workers whose labor had created these assets in the course of a lifetime of employment were left empty handed.

In the process of commodifying, privatizing and frequently embezzling state assets, foreign direct investment (FDI) plays a pivotal role. From 1979 to 2002, \$446 billion in utilized FDI made China the second largest recipient of FDI behind only the US, a position it would consolidate in subsequent years. In 1999, 60% of China’s FDI inflows took the form of mergers and acquisitions (M&A) (Gu 1999). In the process of privatization, workers’ rights to jobs and benefits are almost invariably sacrificed as a condition for takeover, including foreign takeover in ways similar to those of US buyouts. Foreign-Chinese M&As typically involve massive layoffs from SOEs and failure to pay promised severance packages.

Finally, the commodification of urban and suburban land use rights has become fertile ground for the growth of the new bureaucratic-business elite. Urban land is totally “state-owned”, or owned by government administrative or economic units. In the reform period, China’s “socialist land masters” began establishing development companies. Selling



land use rights to commercial developers, they reaped huge fortunes (Hsing, 2006). The loss of state assets through illicit land use transfers since the late '80s has been estimated in the range of 10 billion yuan per year. Between 1999 and 2002, documented illegal land sales totaled 550,000 cases involving 1.2 billion square meters of urban land (Sun 2004: 36).

In the period since the 1970s, China not only achieved rapid and sustained economic growth, but broke a pattern of income stagnation, producing significant income gains for a substantial portion of the population including the working poor. However, measured by income distribution, China has evolved from being one of world's most egalitarian societies on the eve of reform to becoming, by 1995, one of the most unequal in Asia, and then, by the early 2000s, in the world. Here, too, the income distribution trend well mirrors that in the United States, Japan and many other countries (Moriguchi and Saez 2005). The Gini coefficients for the country as a whole worsened at a stunning rate from 0.31 in 1979, to 0.38 in 1988, 0.43 in 1994, and 0.47 in 2004 (Li 2000: 191; Gu and Yang 2004: 222). Emerging trends of spatial, and particularly class, polarization were the product of the commodification of labor, land and capital, embedded in and enabled by an emerging alliance between domestic and international capital and the local bureaucratic elite.

#### IV. Social Conflict and Unrest in the Era of Reform and Internationalization



#### Child Busking in Beijing

The reform agenda, notably the commodification of land and labor and enterprise privatization, have simultaneously stimulated economic growth and threatened the livelihood and security of segments of the rural and urban working classes. Many social conflicts spring from the fact that marketization is not only poorly regulated but frequently accompanied by corrupt and illegal behavior that deprives working people of their historical rights and personal assets. However, thanks to the central government's promotion of legal reform—deemed necessary for China's successful entry into a globalizing market economy, but also to provide rhetorical flourish of "ruling the country according to the law" (*yifa zhiguo*), and to remove the arena of conflict from the streets—aggrieved villagers and workers have attained a new rights consciousness. The results have included both growing litigiousness and a veritable explosion of direct and indirect testing of the still fragile legal system both in the courts and in the streets. In recent years, civil disobedience and legal activism has taken forms in which class rhetoric and consciousness frequently yield to liberal discourses of rights and citizenship at a time of deepening class divisions.

#### Rural Resistance

Until about 2000, the major grievances prompting mass action by villagers were "burdens", including taxes, levies, extraction of funds (for building schools or roads), penalties (e.g. fines for exceeding birth quotas), and compulsory assessments. By the early 2000s, land expropriation had become an additional incendiary issue in many provinces (Ho 2005: 16). Rural rebellions frequently begin when villagers acquire details of the laws and regulations bearing on their interests and rights. When local cadres violate these policies, villagers write complaint letters, visit higher officials, expose local violations of central policies in the media, mobilize fellow villagers to withhold payment of illegal and arbitrary fees and taxes, and challenge such abuses as

land theft. Confrontations between resisters and local cadres have resulted in protracted court battles and in small- and large-scale riots some of which provoke violent crackdowns by local and provincial governments. In recent years, informal groups of rights activists have emerged in a number of localities. While the great majority of protests are local struggles in a single village or factory, activists have begun shrewdly building networks across villages, even counties. Relying on trust, reputation and verbal communication, they consciously avoid formal organizations with hierarchy, documents, memberships and formal leadership (Yu 2003). Reports make clear that while the state has sometimes tolerated protests in a single locality or enterprise, where protesting villagers succeeded in coordinating cross-village or cross-county actions, sometimes culminating in riots, armed police have invariably cracked down.

As the number of popular struggles soared, Beijing repeatedly issued edicts urging local governments to lighten burdens on the rural poor. Emphasizing the center's concern for the peasantry, and responding specifically to worsening conditions that precipitated rural riots in 1991-2, the national legislature in 1993 adopted the PRC Agricultural Law. It gave farmers the right to refuse payment of improperly authorized fees and fines, and stipulated a 5% cap on income tax. In 2000, the center inaugurated the tax for fee policy that aims to eliminate all fee exactions. In 1998 the central authorities passed laws to firm up farmers' land rights by extending their land contracts for 30 more years. The system of direct election of village committees was inaugurated in the early 1980s in a bid to enhance accountability. Despite its uneven implementation, the promulgation of these laws has the profound political effect of inciting a lively public discourse of legality and citizens' rights, together with a surge in popular demands for legal justice. Rights activism (*weiquan*) has thrived among the many aggrieved citizens in both rural and urban

China. The law and the court have become the new contested terrain on which the fight against social injustice is waged.

There is little evidence, to date, however, that these efforts by the central government and the citizenry have had significant effects in curbing the arbitrary powers of local officials, still less that they have empowered villagers in the face of the party's monopoly on formal power. Party manipulation of village elections, in communities where they do take place, is rife. In any event, village committees are incapable of providing a significant counterweight to officialdom. Assuaging popular discontent by initiating villager-friendly policies, moreover, has occurred at the same time that the government progressively relaxed legal restrictions on commercializing and transferring rural land out of farmers' hands. In suburban areas this has frequently resulted in lucrative land grabs that deprived villagers of land rights. This contradiction is at the heart of the continued increase in rural conflicts, particularly in areas with stagnant rural economies but also in prospering areas where inequalities of wealth and power may be all the clearer, and where the economic stakes, driven higher by the prospects of foreign investment, are immense.



Shanghai rising  
*Labor Protests*

Reform of state-owned enterprises, bankruptcies, massive unemployment, and

labor rights violations have triggered a rising tide of labor activism in the cities since the 1990s. Grievances of workers in both the state and private sectors focus mainly on an array of economic and livelihood problems, notably unpaid pensions and wages, layoffs, inadequate severance compensation, arrears of medical reimbursement, and non-payment of heating subsidies. Targets of worker grievances have been enterprise management and local governments. In numerous cases involving bankruptcies and privatization, workers voice opposition to official corruption and illicit transfer of state assets.

Petition, arbitration and protest are the most common worker strategies of action, sometimes pursued simultaneously. In 2003, 1.66 million laid-off, retired and active workers participated in protests nationwide, accounting for 46.9% of participants in the 58,000 incidents that the police recorded (Qiao and Jiang 2004). Blocking traffic, staging sit-ins and demonstrations in front of government office buildings or enterprises have become legion. When workers make claims on the state, they invoke the rhetoric of legal rights and the law, much as do villagers. But workers' banners also demand subsistence rights ("We Want Jobs" "We Need to Eat, We Need to Exist"), often appealing to standards of justice harking back to socialist ideology and the social contract between the working class and the state that prevailed throughout the first four decades of the People's Republic (Lee 2002; 2003).



Laid off Liaoyang workers strike, 2003.

In contrast to the large-scale horizontal bonds formed by workers, students and villagers during the Cultural Revolution, the mode of organization in contemporary labor protests is one of "cellular mobilization". Most urban protests are based on single work units or subgroups within those units, and rarely achieve lateral organization across factories, industries, neighborhoods, cities or beyond. In a few exceptional instances workers veered away from cellular mobilization, displaying a capacity for broader class-based activism. Yet, as soon as arrests of worker representatives from one factory occurred, popular support quickly collapsed. And once the government began conceding to some workers' economic demands, even the momentum for work-unit based action has frequently been undermined (Lee 2007). Above all, once mobilization extends beyond a single community or enterprise, the state steps in quickly to crush the movement.

Labor unrest has been taken seriously, and treated flexibly, by a regime that has prioritized the maintenance of social stability, but not worker welfare or rights. Many workers who participated in collective action report getting at least *some* response from the enterprises or the government, usually in the form of stopgap payment of back wages and pensions. The central government has sometimes allocated emergency funds to localities with social insurance deficits and sought to ensure more effective social pooling. Almost never, however, have workers succeeded in reversing the layoffs, dispossession, or deprivation of rights that violate what had been their birthright for two generations.

Faced with mounting resistance, the Chinese regime has thus far successfully contained rural unrest and urban protests within their respective localities and repressed all incipient horizontal organization and leadership challenges. No broad alliances have emerged within countryside or city. The rural-urban divide embedded in the Chinese social



structure is mirrored in the cleavage between villager and working-class resistance. The dramatic standoff during the 1989 pro-democracy movement was the last time when sprouts of cross-class agitation emerged in the form of support for students and intellectuals on the part of workers and entrepreneurs in demanding political liberalization, clean government and economic stabilization. The violent crackdown on the movement led many engaged intellectuals to turn away from mass politics toward legal and constitutional reform, while many more scarcely skipped a beat in moving from the movement to the market, taking up various entrepreneurial activities or finding a lucrative niche in the bureaucratic-business elite. The vast majority of educated Chinese have been winners as a result of economic reform. For many, political disgruntlement and collective sense of relative deprivation have given way to economic ambitions and upward social mobility facilitated by an ability to effectively navigate China's integration into the world economy.



## V. Conclusion

Across the revolutionary and reform eras, economic and political inequalities in the form of class and spatial hierarchies have given rise to distinctive patterns of popular resistance. First, in the revolutionary period, political campaigns launched by the central party-state, its leadership unified in the 1950s but fractured by factional strife in the 1960s, provided impetus for the emergence of large-scale popular protests which were themselves fueled by social grievances rooted in class and spatial inequalities. Either by conscious cross-regional mobilization (*chuanlian*) or by the simultaneous occurrence of uncoordinated but similar activism across the country, villager, worker and student struggles spread across the nation, targeting policies emanating from the central authorities. In the reform era, decentralization and marketization have produced starkly uneven developmental outcomes across the country, fragmenting and localizing popular grievances and interests. The result has not been the elimination of protest but its dispersal in the form of cellular protests that target local village leaders, enterprise managers and local state officials and frequently appeal for support from the center.

Second, just as market forces combined with state power have perpetrated or exacerbated class and spatial inequalities, and despite villagers' and workers' shared animosity toward a powerful and corrupt bureaucratic-business elite that has consolidated political and economic dominance, the rhetoric of resistance has tended to shift from a revolutionary language of class and class struggle to a liberal, contractual paradigm of legal rights and citizenship. This mirrors the Communist Party's own shift from a rhetoric and mobilizational praxis pivoting on class analysis and antagonistic contradictions, to a language of strata that is directed toward integrating the new business elite into the Party and shifting popular protest from the streets into the courts (He 2006). A striking parallel in the evolving dynamic of rural and

urban unrest may sow the seeds of significant change: attempts to take advantage of openings associated with legal reform in the context of political authoritarianism. The extreme imbalance of power between officialdom and the populace, however, constitutes a formidable barrier to the realization of liberal legal rights in both the countryside and the city. The contradiction between an authoritarian legal system and an ideology of rule of law could lead to radicalization and convergence of popular movements in a society notable for rampant and growing spatial and class inequalities.

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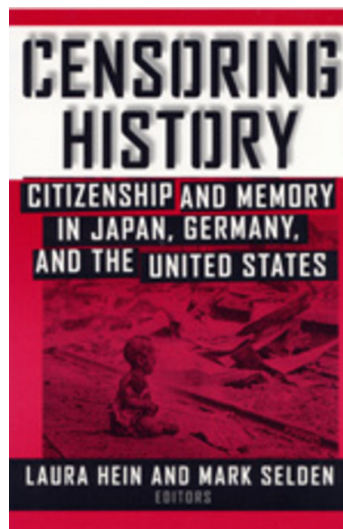
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